

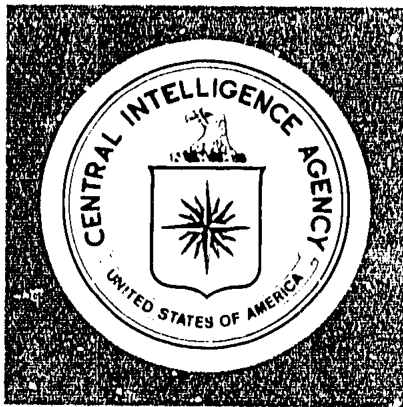
25X1

Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140038-6

Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140038-6

Secret

25X1



Economic Intelligence Weekly

25X1

THIRD
AGENCY AL

Secret

CIA No. 7826/73
1 November 1973

Copy **Nº 263**

25X1

Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140038-6

Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140038-6

CONTENTS

Page

Notes

China's First Direct Purchase of US Oil Equipment	1
EC Rigidity Stalls Multilateral Trade Negotiations	1

25X1

Articles

Economic Impact of the War on Israel <i>Costs of the fighting to date have not been particularly great, but uncertainties concerning the timing and nature of a settlement could adversely affect the longer term prospects for the economy.</i>	2
---	---

Syria: Costs of the Conflict and Prospects for Recovery <i>Large financial commitments from other Arab countries will help Syria offset the costs of the recent conflict and get its economy back to normal.</i>	4
---	---

Availability of Arab Oil <i>Arab oil cutbacks and embargoes are continuing, but the cease-fire will allow some eastern Mediterranean pipeline deliveries to resume.</i>	5
--	---

Worldwide Grain Developments	6
-------------------------------------	---

Chile's Copper Prospects <i>Copper production will play a key role in economic recovery.</i>	7
---	---

The United Kingdom: Cooling Off <i>Flagging consumer demand, budget cuts, and restrictive monetary measures portend slower economic growth.</i>	8
--	---

Comparative Indicators

Recent Data Concerning Domestic and External Economic Activity	Inside Back Cover
--	-------------------

Appendix. Arithmetic of the Recent Oil Price Hikes	Inside Back Cover
--	-------------------

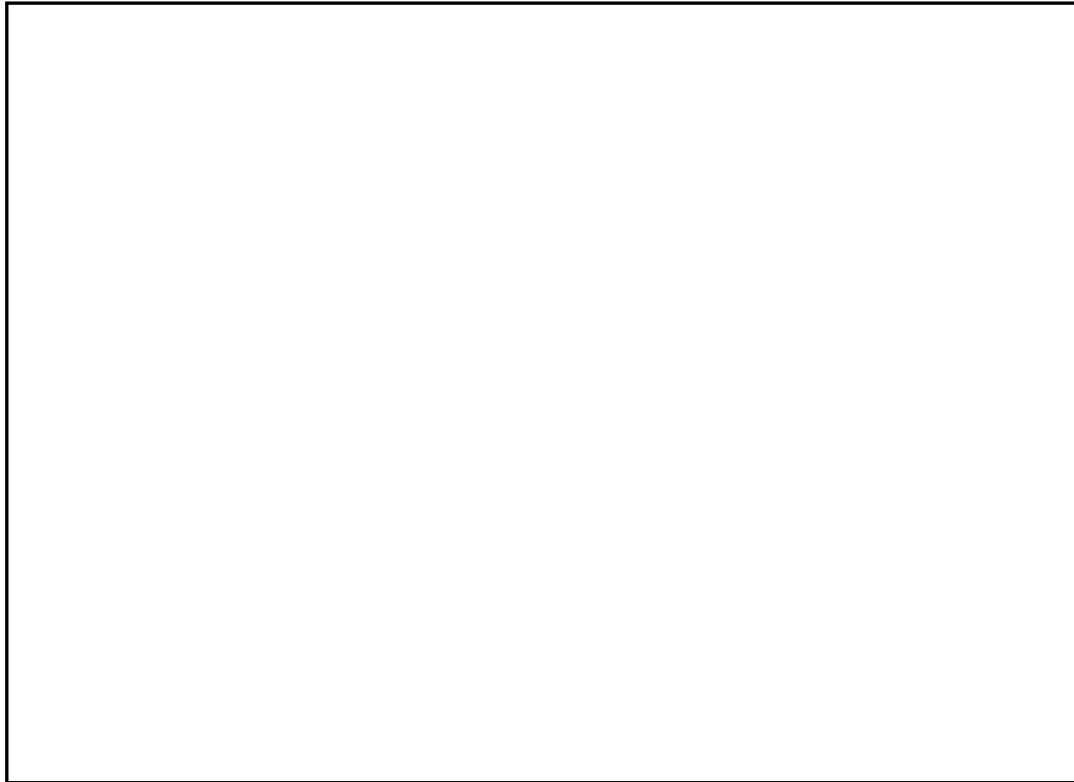
25X1

Note: Comments and queries on the contents of this publication are welcomed. They may be directed to

SECRET

ECONOMIC INTELLIGENCE WEEKLY

Notes



25X1

China's First Direct Purchase of US Oil Equipment

China has contracted with a US firm for \$5.6 million worth of petroleum exploration equipment. This is the first direct sale; earlier sales have been made through third parties. Additional sales for oil recovery technology and drill bits are expected.

25X1

EC Rigidity Stalls Multilateral Trade Negotiations

The first meeting of the GATT Trade Negotiations Committee (TNC) ended in deadlock last week because of EC insistence that agricultural discussions be isolated from all other issues. To let preliminary work begin, the United States had been willing to sidestep the issue by allowing the compromise resolution worked out at Tokyo to serve as a guideline for all working groups. Widely supported compromise proposals by Japan and the TNC Chairman also foundered when EC representatives were unable to take a stand even after repeated telephone consultations with Paris. The EC's inability to modify its negotiating positions without recourse to home capitals will be a continuing problem during the long negotiations ahead.



25X1

SECRET

November 1973

SECRET

Articles

Economic Impact of the War on Israel

The effects of the recent fighting on the Israeli economy have been limited. Israeli statements, for example, that the cost of the war has been \$250 million a day and \$2 billion in the first week of the war seem exaggerated. The Israelis appear to have lumped together the direct and indirect military costs of the war, the economic costs (including the value of lost output), and loss of foreign exchange earnings.

25X1

In the civilian economy, Israeli officials estimate the costs of lost production to be about \$14 million a day, or nearly \$300 million for the three weeks of the war. Some production cuts were felt immediately after the war started, when mobilization and the loss of Arab workers had reduced the civilian labor force of 1.2 million by roughly 25%. The impact of this reduction, however, was later partly offset by the hiring of youths and women and the employment of foreign volunteers. Reductions in demand for non-essential goods and services and a drop in civilian construction also contributed to the drop in output.

Israel was in a sound financial position at the outbreak of hostilities. Despite a large deficit in its goods and services account, the balance-of-payments position was favorable. Foreign exchange reserves totaled close to \$1.5 billion in September. Even with the war, the balance of payments should end the year in surplus. The deterioration in the trade and services account, excluding direct military imports, will be more than compensated by an increase in contributions from abroad. The government expects to raise almost \$2.0 billion from foreign sources—\$750 million from a new development bond issue, and the remainder from world Jewry. Israel also expects to raise about \$600 million domestically by issuing both compulsory and voluntary bonds and by cutting the development budget.

SECRET

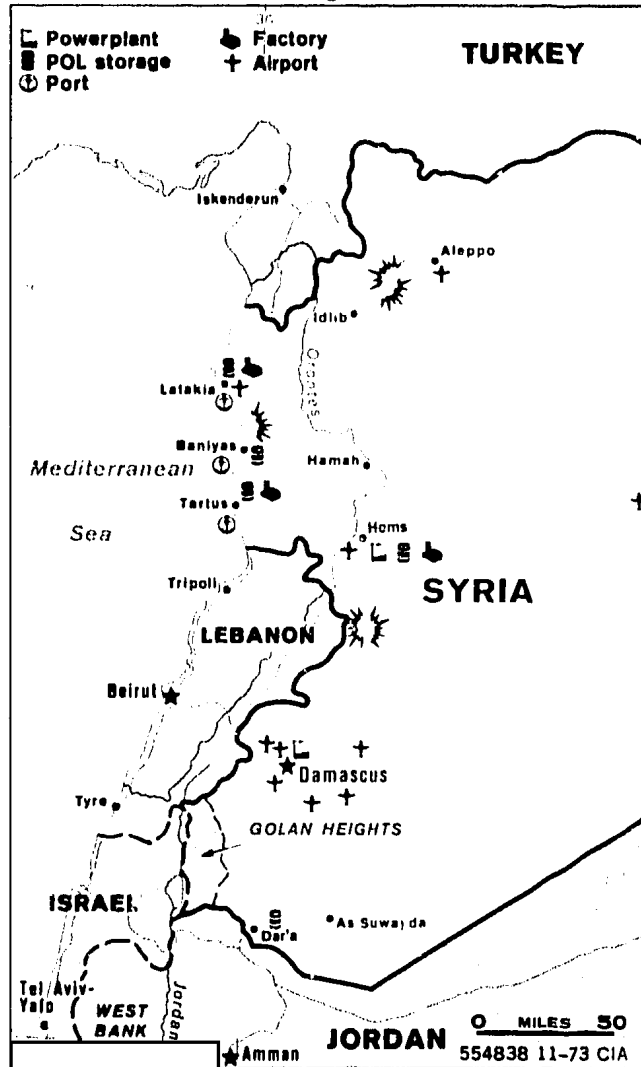
November 1973

SECRET

It is difficult to estimate the longer term impact of the war on Israel's economy. It is not clear how fast civilian production will resume or how domestic demand may react to the settlement terms. The economic boom following the six-day war in 1967 came at a time when the economy was depressed. In contrast, the Israeli economy in early October 1973 was operating at near-capacity and experiencing rapid inflation. If protracted negotiations should preclude a rapid demobilization, output would continue at depressed levels and severe domestic belt-tightening would become necessary. [REDACTED]

25X1

Syrian Facilities Damaged In Recent Hostilities



25X1

Syria: Costs of the Conflict and Prospects for Recovery

Syria has sustained severe losses in military equipment and economic assets as a result of the current conflict. The direct and indirect costs of the war and its aftermath probably will approach \$1 billion, roughly equivalent to half of Syria's annual output. The oil-rich Arab states will more than cover these losses, helping to restore normal growth.

The Syrian economy sustained large but by no means crippling damage. We estimate direct damage to industrial sites and roads, railroads, bridges, and communication facilities to be \$225 million. The petroleum storage areas at Hims, Baniyas, Latakia, and Tartus were hard hit, as were the powerplants in Damascus and Hims, which account for well over one-half of Syria's electric power capacity. Contrary to some earlier reporting, the country's only oil refinery at Hims was not destroyed, although it was rendered inoperable by damage to nearby power and storage facilities.

Production losses and curtailed revenues from oil transit fees and exports could reach \$250 million. Because port damage was minimal, the loss in export earnings probably will not exceed \$100 million this year.

Direct losses in military equipment amounted to at least \$200 million. Damage was inflicted on a number of Syrian military installations. Combined, these losses would total less than \$400 million.

[REDACTED] it seems highly likely that other Arab states will provide enough aid to cover Syria's economic and military losses. In addition, the Arab countries have been assisting Syria with various forms of economic assistance, including the supply of badly needed petroleum, food, medicines, and medical teams.

25X1

Economic recovery will be aided by the lack of damage to agriculture, which supplies much of Syria's national output. Syria had either harvested or sown most of its major crops before the war began. Although the 1973 wheat crop was well below earlier record levels, food supplies appeared to be good throughout the hostilities. Disruptions in supply and transportation should gradually be overcome, and industrial cutbacks caused by direct damage or power losses probably will be restored by early 1974.

25X1

Availability of Arab Oil

Arab oil cutbacks and embargoes are continuing, but the cease-fire has improved the supply situation for southern Europe. Saudi Arabia and Kuwait, which account for 60% of Arab oil exports, initially announced 10% reductions in oil production.¹ Both have since made additional cuts equal to the amount of their direct and indirect exports to the United States. Kuwait has further reduced its production by an amount equal to its normal exports to the Netherlands. As a result, Saudi and Kuwaiti production in November will be about 25% less than in September. Libya, in contrast, has reduced production by only 5% and is not embargoing shipments to Caribbean and Italian refineries that serve the US market. Moreover, Libyan National Oil Company sales are not restricted as to destination.

25X1

According to oil minister Otaiba, Abu Dhabi needs to maximize its revenues and production. Although it is embargoing shipments to the United States and the Netherlands, it is not cutting back production. As long as this policy continues, the oil companies can divert non-Arab oil to the United States and replace it with Abu Dhabi oil.

Eastern Mediterranean pipeline terminals in Syria and Lebanon, which normally supply Western Europe with about 2 million b/d -- 13% of its supply -- will soon be back to their usual level. The Lebanon terminals exporting about 1 million b/d of Iraqi and Saudi crude oil are expected to resume normal operations this week. The Trans-Israeli pipeline, which supplies Europe with about 400,000 b/d, probably will resume exporting soon. The Syrian terminal of Baniyas (about 700,000 b/d), which was damaged by air attacks, will be closed for four to six weeks and then resume activity at one-half capacity.

25X1

1. For tables on oil price increases, see the Appendix.

SECRET

Worldwide Grain Developments***USSR***

Brezhnev announced last week that the grain harvest would yield a gross output of more than 215 million tons - almost 18 million tons more than the previous Soviet estimate. On the basis of yields reported so far, we recently estimated a gross output of as much as 220 million tons, equivalent to some 165 million tons of usable grain. [REDACTED]

25X1

Worldwide Wheat

The International Wheat Council is becoming more optimistic about the world market situation in FY 1974. Its latest assessment puts the difference between wheat export availability and import requirements at between a 2 million ton deficit and a 5 million ton surplus. A month earlier, the Council had forecast a 6 million ton deficit. The new estimate reflects higher-than-expected output in the EC, Australia, and Canada and prospects that less wheat will be fed to animals in the EC. The record grain crop recently announced by the USSR obviously calls for further upward revision of the Council's estimate. [REDACTED]

25X1

China-Syria

China has agreed to donate about 12,000 tons of wheat worth about \$2 million to Syria. Delivery of the wheat, representing about 5% of Syria's annual grain import needs, is expected in late November. This marks the second time in recent weeks that China, a major wheat importer, has used wheat exports for political purposes. Earlier, China agreed to provide Egypt with 100,000 tons of wheat, probably also as a grant. [REDACTED]

25X1

EC

Last week the EC lifted the ban on rice exports and replaced it with a high export levy. Italy, the EC's only exporter, had been trying to get the ban removed since September so it could sell some 300,000 tons of rice from its bumper harvest at the current high world prices. The new export levy probably will keep most of Italy's surplus rice within the Community. [REDACTED]

25X1

25X1

Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140038-6

Approved For Release 2006/04/19 : CIA-RDP85T00875R001500140038-6

SECRET

Chile's Copper Prospects

Chilean copper production in 1973 is expected to be around 650,000 to 670,000 tons -- about 8% below the 1972 level -- and earn about \$1.1 billion in foreign exchange. Improved worker discipline and better mine management can be expected to increase production during 1974 to as much as 750,000 tons, which would be a record production level. Also, a large amount of copper concentrate in the form of converter cleanings at Chuquicamata could earn an additional \$50 million or so in return for a relatively small investment in transportation facilities. As the primary source of foreign exchange earnings, copper production will play a key role in the junta's attempts to bring Chile out of economic chaos.

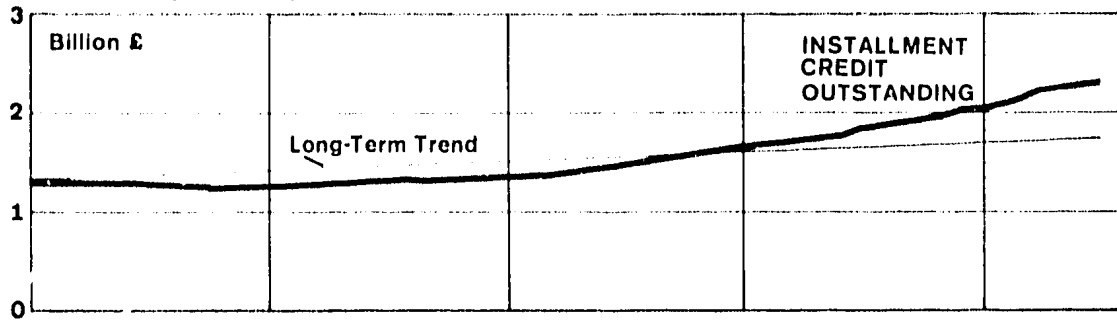
Substantial expansion of production will depend on Chile's ability to attract investment and new expertise. To this end, Santiago is trying to reach some sort of accommodation with major US companies.

25X1

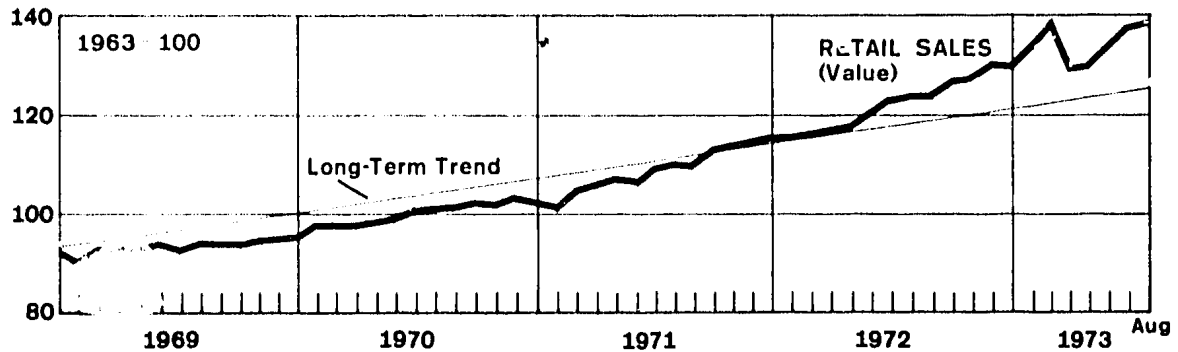
25X1

SECRET

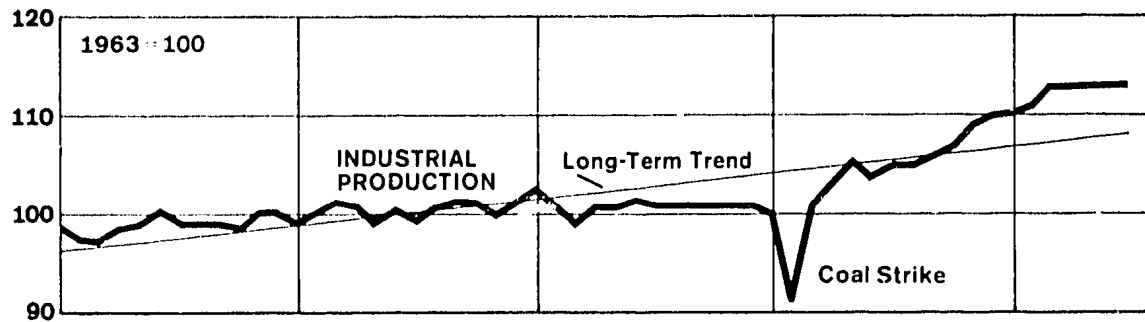
Fueled by the rapid rise in INSTALLMENT CREDIT- -



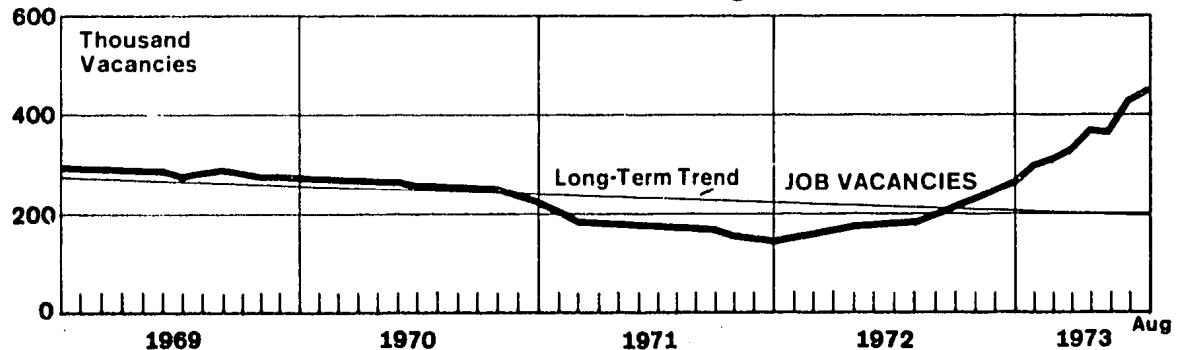
UK RETAIL SALES have soared.



INDUSTRIAL PRODUCTION has leveled off- -



but JOB VACANCIES remain at all-time highs.



25X1

SECRET

The United Kingdom: Cooling Off

For once, the British economy ranks near the top of Western Europe's growth list, but a marked slowdown is indicated for 1974. Strains on productive capacity are increasing, and the Heath government may feel compelled to supplement Stage III of its anti-inflation program with a more restrictive monetary policy -- especially if it hopes to see price rises curbed before the next election. The trade deficit, which will amount to more than \$4.0 billion this year and remain large in 1974, may encourage the government to further restrain monetary expansion.

Expansionary budgets in 1972 and 1973, combined with rapidly increasing bank lending, fostered a consumption-led boom. Gross domestic product in the first half of 1973 was 7% higher than in the first half of 1972; retail sales were 14% higher; and export volume was up about 13%. Rising installment credit fueled retail sales, while the sterling devaluation sparked the export boom.

Signs of flagging demand, however, are increasing. Growth of consumer outlays, which rose at an annual 10% rate in the first quarter, probably has already peaked. Much of the first quarter rise resulted from purchases anticipating the value-added tax introduced on 1 April. Private consumption expenditures in the third quarter fell below the average for the first half, as rising prices and wage restraints began to bite into demand. Budget cuts announced last May and a recent directive to banks to cut personal credit except for housing will further cool demand in the coming months.

After rising steeply during 1972 and the first quarter of 1973, industrial production has leveled off. Plant utilization has reached 94%, one of the highest rates in Western Europe, and the labor market is still tight. Unemployment -- at 2.3% of the labor force in mid-October, compared with 3.5% a year earlier -- is at its lowest since the Tories took office, and job vacancies are at their highest since 1951.

The government has been hoping that rising investment would make the boom self-sustaining. Fixed investment in manufacturing -- in its first upturn since 1970 -- increased 7% in the first half of 1973 over the previous six months, and recent business surveys indicate that most companies plan to expand capacity further. Inventories, however, were rebuilt rapidly in the first half of 1973, and, if consumer spending decelerates abruptly, the upsurge of investment may not continue.

With the economy cooling, imports are expected to rise less rapidly next year. As world demand declines, export growth also should slow, but less severely. The government had hoped that these changes and more

SECRET

1 November 1973

United Kingdom: Balance of Payments ¹

	Million US \$						
	1972				1973		
	I	II	III	IV	I	II	III
Current account balance	-73	475	-355	173	-840	-420	-850 ²
Of which:							
Trade balance	-542	-73	-810	-278	-1,286	-931	-1,366
Long-term capital balance	-428	-596	-306	-906	-248	159	N.A.
Basic balance	-501	-122	-661	-733	-1,087	-261	N.A.
Short-term capital, including errors and omissions	649	-2,588	467	263	1,254 ³	1,215 ³	N.A.
Official settlements balance	148	-2,710	-193	-470	167	954	N.A.

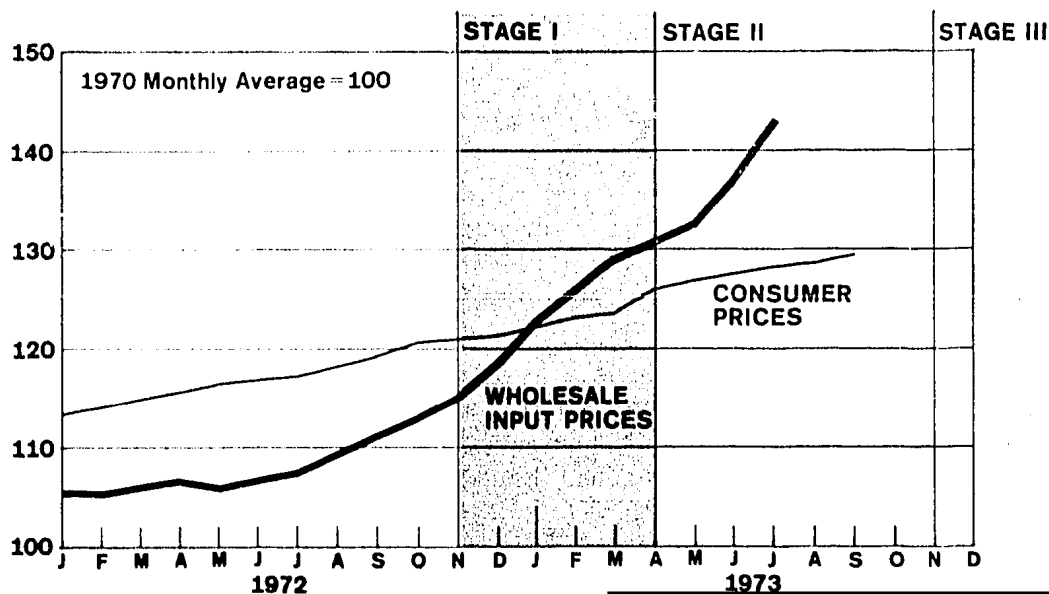
1. Not seasonally adjusted.

2. OER estimate.

3. Including capital transfers.

25X1

WHOLESALE PRICES continued to climb even faster than **RETAIL PRICES** during Stage II.



25X1

SECRET

favorable terms of trade would reduce the trade deficit, which in 1973 will amount to \$4.0 billion to \$4.5 billion. The recent increases in oil prices will cut into the hoped-for improvement by adding some 3% to total import value next year, assuming that the volume of oil imports is about the same as in 1973.

Through the third quarter of 1973, the trade deficit has been covered by official borrowing overseas, short-term capital inflows, and continued growth in net receipts from services and transfer payments. Anticipating a continuing need to finance trade deficits through increased capital inflows, London is relaxing some regulations affecting borrowing abroad.

The trade deficit and continued rapid inflation have already encouraged the government to restrain monetary expansion. Up nearly 17% in 1972, the money supply has risen at an annual rate of about 11% this year. The Bank of England in July called for 1% of commercial bank deposits to be frozen, and it subsequently boosted its minimum lending rate to the market to more than 11%. In September, banks were told to cut back on less essential lending. The Governor of the Bank of England has said that he will take additional steps if growth of the money supply does not slow even more.

The wage and price controls introduced in November 1972 clearly have had little impact. In September, consumer prices were up by 0.9% from August and 9.3% from a year earlier. Under Stage II, in effect since early this year, the government was able to curtail wage increases, a major source of pressure on prices. Price increases for imported raw materials, however, kept consumer prices moving upward at a brisk pace. Wholesale prices continued to climb even more steeply. In the first seven months of 1973, wholesale prices of basic materials and fuels purchased by manufacturing industry -- products with a heavy import content -- rose 24%, compared with the same period a year earlier.

Under Stage III, starting today, controls on wages and prices are being loosened. Even if the labor unions comply with the official guidelines, wages will go up at least 10% in 1974 and add to inflationary pressures, because a sizable gain in productivity is unlikely. Moreover, a broader definition of allowable costs could permit price increases larger than under Stage II.

[REDACTED]

25X1

SECRET

1 November 1973

DOMESTIC ECONOMIC INDICATORS

GDP*

Percent Change

	Percent Change			Average Annual Growth Rate Since	
	Latest Month	From Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	73 III	0.9	5.0	5.7	3.7
Japan	73 II	1.4	9.1	11.0	5.9
West Germany	73 II	2.3	1.6	6.2	8.8
France	73 II	0.7	6.2	8.7	2.9
United Kingdom	73 II	0.7	4.6	5.1	2.7
Italy	73 I	0.8	3.1	5.2	3.4
Canada	73 II	0.9	6.1	6.8	3.7

WHOLESALE PRICES

Index 1967=100

	Percent Change			Average Annual Growth Rate Since	
	Latest Month	From Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Sep 73	0.5	4.9	7.9	3.8
Japan	Sep 73	1.8	5.7	18.7	26.0
West Germany	Sep 73	0.1	4.7	6.6	1.0
France	Aug 73	1.0	7.1	16.2	20.5
United Kingdom	Sep 73	1.1	7.3	7.6	13.5
Italy	Aug 73	1.2	8.4	19.4	27.2
Canada	Jul 73	2.9	8.3	19.2	25.5

INDUSTRIAL PRODUCTION*

Percent Change

	Percent Change			Average Annual Growth Rate Since	
	Latest Month	From Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Sep 73	0.6	6.0	10.2	11.4
Japan	Aug 73	1.1	8.9	17.2	1.1
West Germany	Jul 73	4.5	2.2	5.0	1.1
France	Aug 73	0	7.7	10.4	9.9
United Kingdom	Aug 73	0.7	3.2	8.2	0
Italy	Aug 73	2.0	3.6	15.5	25.3
Canada	Aug 73	3.1	5.6	8.0	1.6

CONSUMER PRICES

Index 1967=100

	Percent Change			Average Annual Growth Rate Since	
	Latest Month	From Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Sep 73	0.3	4.9	7.4	9.7
Japan	Sep 73	2.9	8.2	14.6	19.5
West Germany	Aug 73	0.1	5.8	7.2	2.5
France	Sep 73	0.9	6.4	7.9	9.7
United Kingdom	Sep 73	0.9	8.4	9.3	6.6
Italy	Aug 73	0.6	7.2	11.7	8.5
Canada	Sep 73	0.6	5.5	8.5	11.7

RETAIL SALES*

Percent Change

	Percent Change			Average Annual Growth Rate Since	
	Latest Month	From Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Sep 73	0.9	10.5	10.7	9.5
Japan	Jun 73	2.1	12.6	22.6	14.3
West Germany	Aug 73	4.2	9.0	4.2	1.2
France	Jun 73	1.4	6.4	7.2	5.5
United Kingdom	Aug 73	0.7	11.1	12.1	14.8
Italy	May 73	2.3	11.3	20.4	22.3
Canada	Jul 73	3.4	11.3	13.7	1.5

MONEY SUPPLY*

Index 1967=100

	Percent Change			Average Annual Growth Rate Since	
	Latest Month	From Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Sep 73	-0.3	7.2	5.3	5.5
Japan	Jul 73	0.6	17.9	32.4	12.7
West Germany	Jul 73	-1.7	9.6	4.8	-13.9
France	Apr 73	2.6	13.3	14.1	2.6
United Kingdom	Sep 73	2.1	10.6	8.5	9.9
Italy	Apr 73	2.8	20.4	19.1	13.7
Canada	Aug 73	1.5	13.9	15.5	14.6

MONEY MARKET RATES

Percent Rate of Interest

	Representative Rates			Percent Rate of Interest		
	Latest Date	1 Year Earlier	3 Months Earlier	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Prime finance paper	26 Oct	7.88	5.13	8.13	8.50
Japan	Call money	19 Oct	8.75	4.38	7.25	8.75
West Germany	Interbank loans (3 months)	26 Oct	14.25	7.12	14.25	13.75
France	Call money	26 Oct	11.25	5.88	8.38	10.75
United Kingdom	Local authority deposits	26 Oct	12.91	4.82	10.38	13.13
Canada	Finance paper	26 Oct	9.00	5.13	7.63	8.75
Euro Dollars	Three month deposits	26 Oct	9.38	5.94	11.19	10.38

*Seasonally adjusted.

**Average for latest 3 months compared with average for previous 3 months.

1 Nov 73

EXTERNAL ECONOMIC INDICATORS

EXPORTS*

fob

		Cumulative			
	Latest Month	Million US \$		Percent Change	
		1973	1972		
United States	Sep 73	6,448	50,610	35,869	41.1
Japan	Sep 73	3,126	25,758	20,185	27.6
West Germany	Sep 73	6,268	48,869	34,034	43.6
France	Sep 73	3,241	26,742	19,205	39.2
United Kingdom	Sep 73	2,584	21,226	16,738	26.8
Italy	Aug 73	1,890	13,489	11,899	13.4
Canada	Jul 73	2,075	13,918	11,252	23.7

EXPORT PRICES

US \$

	Latest Month	Percent Change			Average Annual Growth Rate Since	
		From Previous Month		1970	1 Year Earlier	3 Months Earlier
		Month	Month			
United States	Aug 73	3.9	8.4	22.5	35.7	
Japan	Jul 73	4.3	12.8	23.6	40.0	
West Germany	Aug 73	-2.7	15.6	32.3	70.2	
France	Jun 73	9.2	15.5	33.7	51.5	
United Kingdom	Aug 73	0.6	10.5	12.3	11.5	
Italy	Jun 73	2.9	9.2	12.9	22.1	
Canada	Jun 73	-0.6	5.5	10.4	11.8	

IMPORTS*

fob

	Latest Month	Cumulative			
		Million US \$	Million US \$		Percent Change
			1973	1972	
United States	Sep 73	5,575	50,456	40,679	24.0
Japan	Sep 73	2,725	22,154	13,523	63.8
West Germany	Sep 73	4,435	37,245	27,805	33.9
France	Sep 73	3,001	25,690	18,436	39.3
United Kingdom	Sep 73	3,018	24,429	17,941	36.2
Italy	Aug 73	2,317	15,074	10,996	37.1
Canada	Jul 73	1,949	12,977	10,616	22.2

EXPORT PRICES

National Currency

	Latest Month	Percent Change			Average Annual Growth Rate Since	
		From Previous Month		1970	1 Year Earlier	3 Months Earlier
		Month	Month			
United States	Aug 73	3.9	8.4	22.5	35.7	
Japan	Jul 73	4.2	2.2	8.5	38.1	
West Germany	Aug 73	-1.9	0.9	-0.8	4.4	
France	Jun 73	3.8	5.6	13.1	14.6	
United Kingdom	Aug 73	2.0	9.2	10.8	18.6	
Italy	Jun 73	2.5	6.6	13.1	26.9	
Canada	Jun 73	-0.5	4.2	12.0	11.8	

TRADE BALANCE*

fob/fob

		Latest Month	Cumulative (Million US \$)		
		Million US \$	1973	1972	Change
United States	Sep 73	873	154	-4,810	4,964
Japan	Sep 73	402	3,604	6,661	-3,057
West Germany	Sep 73	1,832	11,624	6,228	5,396
France	Sep 73	240	1,052	769	284
United Kingdom	Sep 73	-434	-3,204	1,203	-2,001
Italy	Aug 73	-427	-1,584	903	-2,488
Canada	Jul 73	126	941	635	305

IMPORT PRICES

National Currency

	Latest Month	Percent Change			Average Annual Growth Rate Since	
		From Previous Month		1970	1 Year Earlier	3 Months Earlier
		Month	Month			
United States	Aug 73	2.1	10.6	20.6	19.2	
Japan	Jul 73	1.9	0.6	8.0	12.3	
West Germany	Aug 73	1.1	-0.2	2.6	-9.1	
France	Jun 73	0.6	3.1	5.6	7.3	
United Kingdom	Aug 73	4.0	13.3	34.1	42.6	
Italy	Jun 73	4.6	10.8	24.8	54.4	
Canada	Jun 73	1.1	4.8	10.6	13.4	

BASIC BALANCE**

Current and Long-Term Capital Transactions

		Latest Period	Cumulative (Million US \$)		
		Million US \$	1973	1972	Change
United States*	73 II	-800	-1,700	-5,700	4,000
Japan	Aug 73	-770	-5,926	1,257	-7,183
West Germany	Jul 73	136	1,605	3,593	-1,988
France	73 I	-576	-576	-524	-52
United Kingdom	73 I	-995	-995	-446	-549
Italy	72 IV	800	NA	2,983	NA
Canada	73 I	-272	-272	-117	-155

EXCHANGE RATES

As of 26 Oct 73

	US \$ Per Unit	Percent Change from			
		Dec 66	18 Dec 1971	19 Mar 1973	19 Oct 1973
		1971	1973	1973	1973
Japan (Yen)	0.0038	36.46	15.95	-1.00	0.24
West Germany (Deutsche Mark)	0.4113	63.60	32.55	16.15	-0.82
France (Franc)	0.2369	17.34	20.31	7.49	-0.67
United Kingdom (Pound Sterling)	2.4370	-12.67	-6.47	-0.98	-0.04
Italy (Lira)	0.0018	10.08	2.44	-0.45	-0.11
Canada (Dollar)	1.0049	8.94	0.71	0.72	0.34

OFFICIAL RESERVES

	Latest Month		Billion US \$		
	End of	Billion US \$	Jun 1970	1 Year Earlier	3 Months Earlier
	Sep 73	14.0	16.3	13.2	14.0
United States	Sep 73	14.0	16.3	13.2	14.0
Japan	Sep 73	14.8	4.1	16.5	15.2
West Germany	Aug 73	37.9	8.8	24.6	32.2
France	Sep 73	9.9	4.4	10.0	10.2
United Kingdom	Sep 73	6.4	2.8	6.1	7.0
Italy	Jul 73	5.7	4.7	6.5	6.4
Canada	Sep 73	5.5	4.3	6.2	6.0

TRADE-WEIGHTED EXCHANGE RATES***

As of 26 Oct 73

	US \$ Per Unit	Percent Change from			
		Dec 66	18 Dec 1971	19 Mar 1973	19 Oct 1973
		1971	1973	1973	1973
United States	22.70	-19.67	-10.11	-3.33	0.01
Japan	30.80	8.69	-3.36	0.29	
West Germany	11.37	1.84	-0.69	-0.26	
France	-35.64	-21.37	-6.93	0.21	
United Kingdom	-17.16	-15.97	-9.13	0.30	
Italy	4.83	-1.72	-0.07	0.38	
Canada					

*Seasonally adjusted.

**Converted into US dollars at current market rates of exchange.

1 Nov 73

***Weighting is based on each listed country's trade with 16 other industrialized nations. The index is set equal to 100 in 1965. The index is adjusted for exchange rate variations among the major currencies.

SECRET

APPENDIX

Arithmetic of the Recent Oil Price Hikes

On 16 October the Persian Gulf members of the Organization of Petroleum Exporting Countries (OPEC) announced a unilateral 70% increase in posted prices for crude oil. This action was followed quickly by large posted price increases in Libya and Venezuela. The following tables show the relationship between the posted prices and the estimated actual sales prices.

25X1

Venezuelan Price Increase			
	US \$ per Barrel		
	As of 1 Oct 1973	As of 1 Nov 1973	Percent Increase
Venezuelan 26° gravity oil			
1. Posted price ¹	4.925	6.72	36.4
2. Estimated royalty (16-2/3%) ²	0.62	0.62	
3. Production cost	0.51	0.51	
4. Profit for tax purposes [1-(2+3)]	3.795	5.59	
5. Tax (58% of 4)	2.201	3.242	
6. Government revenue (2+5)	2.821	3.862	36.9
7. Oil company cost (3+6)	3.331	4.372	31.3
8. Estimated oil company profit	0.50	0.50	
9. Estimated sales price (f.o.b.) (7+8)	3.831	4.872	27.2
10. Estimated transportation cost ³ (to the US Gulf Coast)	0.46	0.46	
11. Estimated sales price (c.i.f.) (to the US Gulf Coast)	4.291	5.332	24.3
¹ Including a short-haul freight premium of 69 US cents per barrel. ² This percentage is derived from a complex formula using the price of Texas crude. Some of the newer concessions pay 20% or 25% royalties. ³ Based on average freight rate assessments, 3 September 1973.			
(UNCLASSIFIED)			

A-1

SECRET

1 November 1973

SECRET

Libyan Price Increase			US \$ per Barrel
	As of 1 Oct 1973	As of 1 Nov 1973	Percent Increase
Libyan 40° gravity oil			
Company-owned crude oil (49% of exports)			
1. Posted price - base	4.215	6.979	65.6
2. Short-haul premium ¹	0.243	0.458	
3. Suez Canal allowance ²	0.13	0.152	
4. Low-sulfur premium	0.10	1.336	
5. Posted price - total (1+2+3+4)	4.688	8.925	90.4
6. Royalty (12½% of 5)	0.586	1.116	
7. Production cost	0.300	0.300	
8. Profit for tax purposes [5-(6+7)]	3.802	7.509	
9. Tax (55% of 8)	2.091	4.130	
10. Retroactive payment ³	0.100	0.100	
11. Government revenue (6+9+10)	2.777	5.346	92.5
12. Oil company cost (7+11)	3.077	5.646	83.5
13. Estimated oil company profit	0.500	0.500	
14. Estimated sales price (f.o.b.) (12+13)	3.577	6.146	71.8
15. Estimated transportation cost (to the US East Coast)	0.650	0.650	
16. Estimated sales price (c.i.f.) (to the East Coast)	4.227	6.796	60.8
Government-owned crude oil (51% of exports)			
Price for oil company purchases of government-owned oil	4.900	7.500	53.1
¹ To Libya for its locational advantage over the Persian Gulf states. This premium is adjusted quarterly as tanker rates change. ² Closure of the Suez Canal raised the cost of delivering Persian Gulf oil to Europe and North America. Libyan oil receives an allowance because it does not incur this disadvantage. ³ During negotiations in the Spring of 1971, the Libyans demanded substantial retroactive payment for their oil. Rather than make a large lump-sum payment the companies agreed to a permanent 10 cents per barrel increase.			

SECRET

Persian Gulf Crude Oil Prices ¹			
	US \$ per Barrel		
	As of 1 Oct 1973	As of 1 Nov. 1973	Percent Increase
Saudi Arabian 34° gravity oil			
Company-owned crude oil (75% of exports)			
1. Posted price (typical light crude)	3.011	5.11	69.7
2. Royalty (12 1/2% of 1)	0.376	0.639	
3. Production cost	0.10	0.10	
4. Profit for tax purposes [1-(2+3)]	2.535	4.371	
5. Tax (55% of 4)	1.394	2.404	
6. Government revenue (2+5)	1.77	3.043	71.9
7. Oil company cost (3+6)	1.87	3.143	68.1
8. Estimated oil company profit	0.50	0.50	
9. Estimated sale price (f.o.b.) (7+8)	2.37	3.643	53.7
10. Estimated transportation cost ² (to the US Gulf Coast)	1.48	1.48	
11. Estimated sales price (c.i.f.) (to the US Gulf Coast)	3.85	5.123	33.1
Government-owned crude oil (25% of exports)			
Price for oil company purchases of government-owned oil (22.5%)	2.30	3.65	58.7
Price for government sales to third parties (2.5%)	3.12	3.65	17.0
¹ The increase was announced by the Persian Gulf members of OPEC - Abu Dhabi, Iran, Iraq, Kuwait, Qatar, and Saudi Arabia.			
² Using tanker rates of Worldscale 100, which is a representative average. Only a small fraction of the Persian Gulf area's oil is being transported at the much higher spot rates now in effect.			

(UNCLASSIFIED)

SECRET

1 November 1973